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MARKET MOVERS

September 16, 2024

Heavy Weather

"Bad weather always looks worse through a window." – Tom Lehrer

"The threat from extreme weather events highlights the importance of investing in preparedness." – Sherri Fink

Summary

Risk mixed as the waiting game for the Fed and other central banks dominates and as mid-autumn holidays leave most of Asia closed. The 2nd assassination attempt on Trump foiled early and the weekend worries over geopolitics rise with Russia dialing up pressure on Kursk and Houthi missile attacks on Israel. Bad weather in China blamed for the August weakness in the retail sales in industrial production while bad weather in Poland, Shanghai, Louisiana and threats of more to come in are watched for destruction and disruption. The big FX story was in JPY breaking 140 – first since summer 2023 – while emerging markets globally rallied to best levels since January. EUR bid links to multiple ECB speakers talking about just a December cut, while the 50bps debate for Fed this week rages. The lack of bigger data today leaves markets set up for more gaming positions for the retail sales and the Fed later in the week. Watching NY Empire Fed and bill sales for mood checks.

What's different today:

- **JPY trades 139.56 –** best performing of APAC in quiet session closed for holidays – up 12.7% in the last 3-months. Further carry trade unwinds feared for larger risk off.

- **Oil holds 1% gains from last week** – WTI up 0.4% - with focus on weather disruptions in US Gulf Coast with 20%-40% of oil and gas production closed.

What are we watching:

- **US September New York Fed Empire Manufacturing Index** expected -4 after -4.7 – matters to the overall growth story, useful in conjunction with Philadelphia Fed survey.
- **US Treasury** sells $76bn in 3M and $70bn in 6M bills – usually not watched but for Fed easing plans getting more interesting.

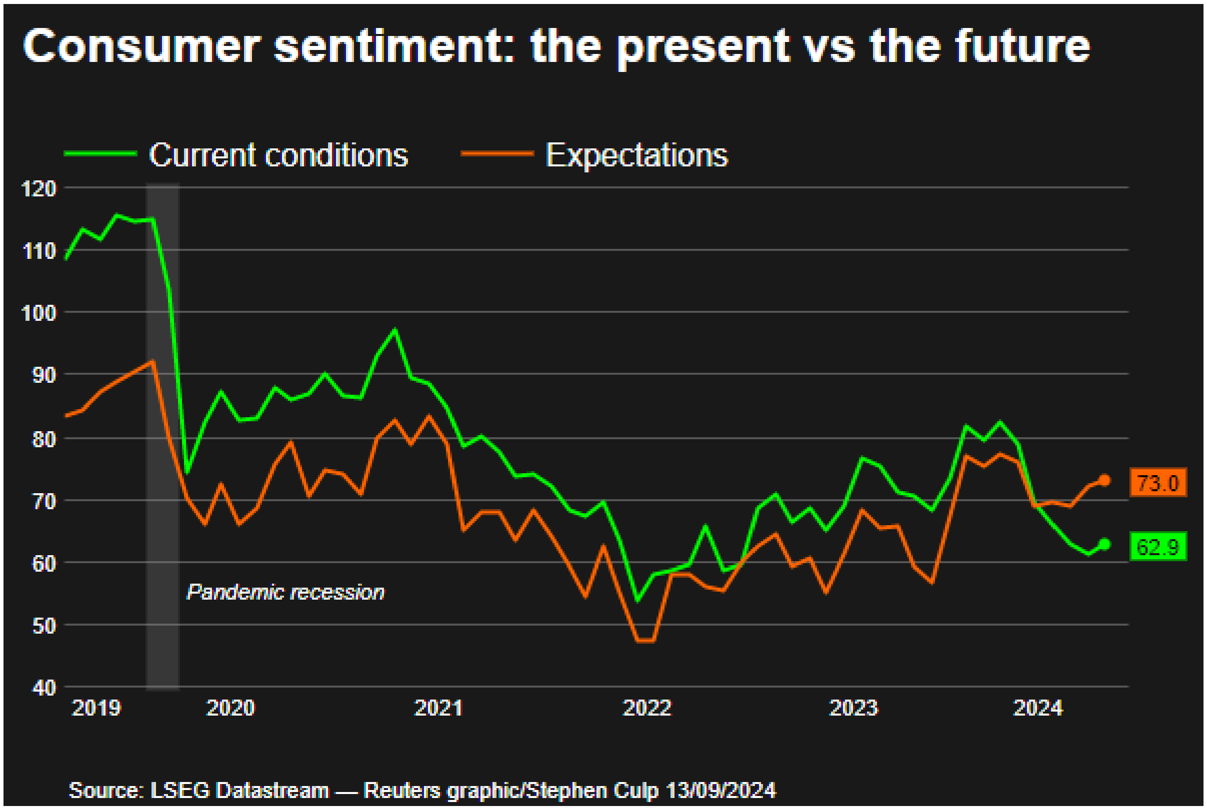
Headlines

- FBI probing second apparent Trump assassination attempt – S&P500 futures up 0.1%, US 10Y yields off 1bps to 3.645%, US dollar index off 0.4% to 100.68
- China August house prices -5.3% y/y – lowest since May 2015 – real estate investment -10.2% unchanged, while industrial production off 0.6pp to +4.5% worst since March, retail sales off 0.6pp to 2.1% blamed on weather – China markets closed for holiday.
- Eurozone July trade surplus steady at E21.2bn with exports up 10.2% y/y led by chemicals – while 2Q labor costs slow 0.3pp to 4.7% y/y – with ECB speakers citing service inflation as factor for slower easing pace, ECB survey has 2.25% terminal rate – EuroStoxx 50 flat, EUR up 0.4% to 1.1120

The Takeaways:

The worst flood in over two decades in central Europe highlights the tragedy of extreme weather and the importance of climate change preparedness. The cost of all such disruption and destruction matters and won't help with the ongoing Ukraine/Russia war and the present policy and politics of Europe. The effects of storms on the US economy have a long history and its politics were notable with the infamy of Katrina on New Orleans. In the first half of 2024 the cost of natural disasters was $128bn – with $61bn of that insured. The US was half of that but the issue for markets isn't where the unknown happens but how much and who pays for it. The ability for the world to underwrite the risks. The role of government vs. the private sector in this story is part of the politics and the fiscal worries that roll over all markets. What stands out for the US is the consumer sentiment as they race to November 5th election. The University of Michigan survey on Friday highlights the role of inflation, (gasoline particularly), election expectations and the optimism for the year ahead.

Exhibit #1: Is the US consumer optimistic?



Source: Reuters, BNY

Details of Economic Releases:

1. **China August house price index fell -5.3% y/y after -4.9% y/y – worse than -5% y/y expected** - the 14th straight month of decrease and the steepest pace since May 2015, despite Beijing's extensive measures to reverse a downturn in the property sector, such as trimming mortgage rates and reducing home buying costs. Prices shrank further in most cities, including Beijing (-3.6% vs -3.3% in July), Guangzhou (-10.1% vs -9.9%), Shenzhen (-8.2% vs -8.0%), Tianjin (-1.4% vs -1.2%), and Chongqing (-5.4% vs -4.9%). On the other hand, cost continued to increase in Shanghai (4.9% vs 4.4%). Monthly, new home prices dropped by 0.7% for the fourth straight month in August, remaining at its fastest fall since October 2014

2. **China August industrial production slows to +0.32% m/m, 4.5% y/y from 5.1% y/y – weaker than 4.8% y/y expected** – weakest monthly gain in 3 and the softest yearly expansion in industrial output since March, marking the fourth straight month of a slowdown, due to the disruption caused by extreme weather this summer. Output growth mostly eased in manufacturing (4.3% vs 5.3% in July) and

mining (3.7% vs 4.6%). Within manufacturing, 32 out of 41 major sectors grew, notably railway, ship, aviation (12.0%), computer, communication (11.3%), heat production (6.9%), non-ferrous metal smelting (6.6%), chemicals (5.9%), auto (4.5%), textile (4.4%), oil & gas (4.0%), coal, mining & washing (3.3%), and special equipment manufacturing (2.9%). By contrast, output fell for non-metallic mineral products (-5.5%) and ferrous metal smelting and rolling (-2.1%).

3. China August retail sales slows to 0% m/m, 2.1% y/y after +0.35% m/m, 2.7% y/y – weaker than 2.5% y/y expected – blamed on the unusual weather events this summer, marked by scorching heat and pouring rains. Sales growth slowed for personal care (1.3% vs 2.1% in July) amid weak spending for cosmetics (-6.1% vs -6.1%), clothing, shoes, hats & textiles (-1.6% vs -5.2%), gold, silver, and jewelry (-12.0% vs -10.4%), furniture (-3.7% vs -1.1%), oil products (-0.4% vs 1.6%), office supplies (-1.9% vs -2.4%), car (-7.3% vs -4.9%), and building materials (-6.7% vs -2.1%). On the other hand, turnover quickened for grain, oil, food (10.1% vs 9.9%), and communications equipment (14.8% vs 12.7%) while sales of home appliances bounced back (3.4% vs -2.4%).

4. China August fixed asset investment slows to 3.4% y/y year-to-date after 3.6% y/y – weaker than 3.5% y/y expected. Investments in the primary sector eased further (2.9% vs 3.3%). At the same time, investment in the secondary sector grew slightly less (12.1% vs 12.5% in January to July), amid increases in mining (15.6%), manufacturing (9.1%), and electricity, heat, gas and water production and supply (23.5%). Simultaneously, investments in the tertiary industry rebounded (4.4% vs -0.7%). In the meantime, investment in real estate contracted by an annual 10.2% during the first eight months of the year, the same as in the previous period.

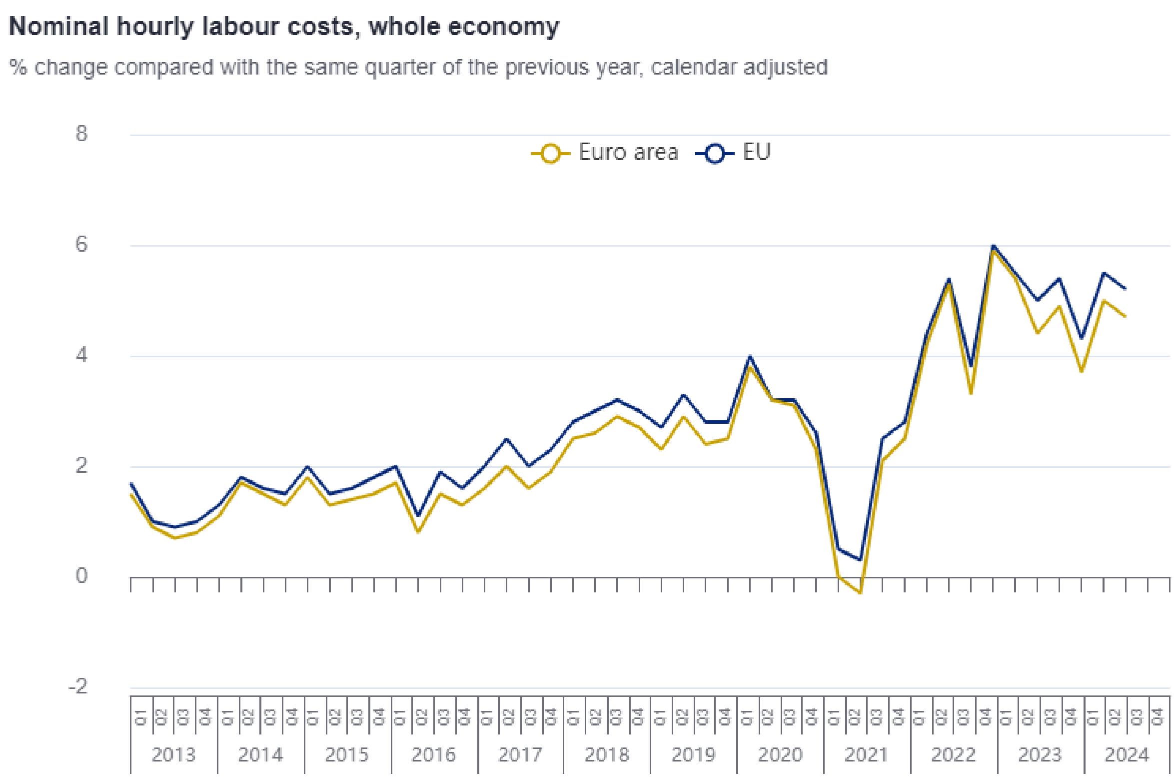
5. China August unemployment rises to 5.3% from 5.2% - worse than the 5.2% expected and highest since February, reflecting the impact of graduation season. The jobless rate among locally registered residents stood at 5.4% while those with non-local registration had a rate of 4.9%. Among non-local agricultural registrants, the unemployment rate came in at 4.6%. In 31 major cities, the urban unemployment rate stood at 5.4%. On average, employees in enterprises worked 48.7 hours per week. From January to August, the surveyed jobless rate averaged 5.2%, down 0.1 ppts compared to the same period of 2023.

6. Eurozone July trade surplus steady at E21.2bn after E21.7bn – more than the E15bn expected and up from E6.7bn last year in August. Exports jumped by 10.2% y/y to E252 bn, largely on account of chemicals and related products

(+17.9%); food & live animals (+15.1%); miscellaneous manufactured articles (+11.3%) and manufactured goods (+8.4%). Meanwhile, imports rose at a slower 4% to E230bn, as higher purchases of chemicals and related products (+10.4%) were partly offset by declines in those of mineral fuels, lubricants and related (-4.5%) and machinery & transport equipment (-0.5%).

7. Eurozone 2Q labor cost index slows to 4.7% y/y from 5.0% y/y – higher than 4.5% y/y expected. Wages and salaries per hour worked grew by 4.5% annually, down from 5.2% in Q1, while the non-wage component saw a 5.2% rise. Across the currency bloc's key industrial sectors, labor costs increased by 5.3% in construction, 4.8% in industry, and 4.5% in services. Among the Euro Area's largest economies, labor costs rose sharply in Germany (5.1%), followed by France (3.7%) and Italy (3.3%). Meanwhile, significant surges were recorded in Bulgaria (15.4%), Croatia (17.6%), and Romania (15%).

Exhibit #2: Does service inflation stop the ECB?



Source: EuroStat, BNY

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Please direct questions or comments to: iFlow@BNY.com

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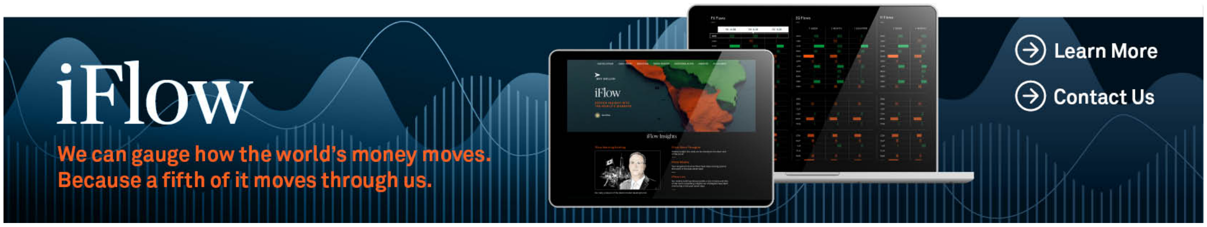

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